SCHEDULE A

ANNUAL BUDGET AND SUPPORTING DOCUMENTATION OF ALFRED NZO DISTRICT MUNICIPALITY

FINAL ANNUAL BUDGET OF

ALFRED NZO DISTRICT MUNICIPALITY

2016/17 TO 2018/19

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Abbreviations and Acronyms

AMR Automated Meter Reading
ASGISA Accelerated and Shared Growth Initiative
BPC Budget Planning Committee
CBD Central Business District
CFO Chief Financial Officer
CM City Manager
CPI Consumer Price Index
CRRF Capital Replacement Reserve Fund
DBSA Development Bank of South Africa
DoRA Division of Revenue Act
DWA Department of Water Affairs
EE Employment Equity
EEDSM Energy Efficiency Demand Side Management
EM Executive Mayor
FBS Free basic services
GAMAP Generally Accepted Municipal Accounting Practice
GDP Gross domestic product
GDS Gauteng Growth and Development Strategy
GFS Government Financial Statistics
GRAP General Recognised Accounting Practice
HR Human Resources
HSRC Human Science Research Council
IDP Integrated Development Strategy
IT Information Technology
kℓ kilolitre
km kilometre
KPA Key Performance Area
KPI Key Performance Indicator
kWh kilowatt
ℓ litre
LED Local Economic Development
MEC Member of the Executive Committee
MFMA Municipal Financial Management Act Programme
MIG Municipal Infrastructure Grant
MMC Member of Mayoral Committee
MPRA Municipal Properties Rates Act
MSA Municipal Systems Act
MTEF Medium-term Expenditure Framework
MTREF Medium-term Revenue and Expenditure Framework
NERSA National Electricity Regulator South Africa
NGO Non-Governmental organisations
NKPIs National Key Performance Indicators
OHS Occupational Health and Safety
OP Operational Plan
PBO Public Benefit Organisations
PHC Provincial Health Care
PMS Performance Management System
PPE Property Plant and Equipment
PPP Public Private Partnership
PTIS Public Transport Infrastructure System
RG Restructuring Grant
RSC Regional Services Council
SALGA South African Local Government Association
SAPS South African Police Service
SDBIP Service Delivery Budget Implementation Plan
SMME Small Micro and Medium Enterprises

Part 1 – FINAL Annual Budget

EXECUTIVE MAYOR, CLLR. E.N. DIKO'S POLICY SPEECH DURING TABLING OF THE FINAL 2016/17 IDP/BUDGET OF THE ALFRED NZO DISTRICT MUNICIPALITY TO THE SITTING OF ORDINARY COUNCIL MEETING TO BE HELD AT THE ALFRED NZO COUNCIL CHAMBERS ON THE 31 MAY 2016 AT 11H00

Honourable Speaker of the Council

Chief Whip of the Council

Deputy Executive Mayor

Members of the Mayoral Committee

MPAC Chairperson and Members

The Whippery

Councillors

Iinkosi zomthonyama

Board Members of ANDA

Members of the Audit Committee

Municipal Manager

Senior Managers

CEO of ANDA

Officials

Distinguished guests in the gallery

Members of the media present here today

Friends and Comrades mandinibulise kuni nonke ngalentsasa

Honourable Speaker and the Council, today marks the last the Africa Month which was celebrated throughout the month across the African continent and culmination of the celebration of Africa Month was held last week on Wednesday, 25th of May 2016 at Cape

Town International Convention Centre where President Jacob Zuma gave the key note address.

Africa Day is celebrated annually on 25 May within the African continent to mark the formation of the Organisation of African Unity on 25 May 1963 and the African Union in 2002 and the progress made by the continent since then to advance democracy, peace, stability and socio-economic development.

In his key note address the President said and I quote:

"Many countries in the continent provided refuge to many South Africans who went into exile and provided material, social, political and military support. Africa Day thus provides an opportunity to celebrate that African solidarity and to continue expressing it through the ongoing support for many in the continent who are caught up in conflict. It is a day for us to celebrate African solidarity, friendship, a common humanity and destiny."

This year's Africa Month was held under the theme: ***"Building a better Africa and a Better World"***

Honourable members of the Council it is of paramount importance that we must also note that tomorrow marks the start of the Youth Month and Alfred Nzo Month. The district municipality has a series of planned programmes aimed at marking these important commemorations as contained in our calendar.

We are still faced with many youth challenges ranging from unemployment, access to economic opportunities and inequality, just to mention few. The National Youth Policy (NYP2020) warns that if these socio-economic effects may lead to dire situations. It is in this light that as the district municipality working with National Youth Development Agency and ANDA, we are finalising preparation of officially opening Alfred Nzo Youth Office that will see the realisation of youth development interventions in the region.

We will continue to implement programmes that will further improve the quality of the lives of our people, especially the poor and vulnerable groups through the acceleration of delivering water, sanitation and driving local economic development.

Honourable Speaker, through our Integrated Development Plan (IDP) and Budget outreaches that we conducted across the district, the communities have reaffirmed their needs which include amongst others: water and sanitation, electricity, roads, job creation, roads, health and education facilities, Small, Medium and Micro Enterprises (SMMEs) empowerment and support, and sport and recreational facilities.

Some of the identified needs do not fall within the mandate of the municipality, and communities do not differentiate between the functions of the municipality and those of the provincial and national government. This therefore calls for better coordination and integration of our planning efforts as the municipalities, together with the provincial and national sectoral departments as well as other related state entities, to ensure that the needs of the communities are met.

The Integrated Development Plan should be seen and indeed become the central planning tool for the three spheres of government if we are to accelerate service delivery to our communities.

We need to work together to speed up the implementation of this programme of action to address backlogs on water, sanitation and also improve our economic development initiatives to fight poverty, income inequalities and unemployment which are the dominant challenges we face in our district.

Honourable members of the Council it with my great pleasure that in this important sitting of the Council, I present the final Integrated development Plan (IDP) and Budget for 2016/2017 financial year of the adopted Alfred Nzo District Municipality, our 5 Year Strategic Document 2012-17 for adoption.

Honourable members, it is important to note that this our last opportunity to debate this Strategic Document, the journey we started in 2011 which saw the first tabling of this 2012 – 2017 IDP in May 2012. As we embark on the final implementation of this document together with its budget, it is very honouring to report that we have accelerated development of our people. Many communities now have access to clean water and sanitation and I will give full report on the implementation of this 5 Year Strategic Document in my State of the District Address that I will table before the people of the district during the Open Council Day scheduled to take place at Ndayingana village, Ward 5 in Mbizana Local Municipality on the 23rd of June 2016.

Alfred Nzo District Municipality is both a Water Service Authority and Water Services Provider; hence the key priority is to provide these essential services to every household in our district.

Honourable Chief Whip and Whippery, ***Water is Life and Sanitation is Dignity***, we have made significant progress in the district towards provision of water and sanitation, but more is still to be done, as many of our communities are still in need of these essential life changing services.

As the district municipality, we are also affected by the narrowing fiscal envelope, whilst on the other side there is an increasing demand for speeding up of service delivery in many of our communities, it is imperative that fiscal sustainability and revenue generation is achieved in order to address the shortfall thereof.

In this regard the municipality is continuing to implement its revenue enhancement strategy and as such installation of pre-paid water meters in Matatiele is in progress with 70% complete and we will move to other towns as to improve our billing system and infrastructure.

Chairperson of the Council, our plans and strategies for 2016/17 financial year are now in place, and now all our efforts, resources and energies must be focussed on accelerating the implementation and service provision to all our communities.

In order to implement this programme of action we need funds, I therefore present to this house that the total operating revenue for the municipality is R2.1 billion and it is important to note that it has increased by R 1 billion which is a loan we sourced from Billion Group Consortium.

Honourable Chief Whip and Whippery, this billion loan will assist us in speeding our services to the people by financing the following projects amongst others:

- Installation of prepaid water meters
- Matatiele Ward 7 Sanitation project
- Construction of Mbizana Disaster Management Satellite
- Building Municipal Offices

Fellow Councillors, received R717 million Grant and R387 million for equitable share respectively from the National Treasury.

Meanwhile, our own revenue generation methods have contributed R38.6 million to our total revenue but let me indicate that the amount shows a significant decline this time around compared to previous years.

We therefore as we implement this programme of action, we must be very firm on cutting down of excessive expenditure on travel and subsistence, consultants, venues, catering, cellphones and many other aspects as per Municipal Finance Management Act (MFMA) Circular No. 82 – Cost Containment Measures – 30 March 2016.

Honourable Councillors, the district is one of the hardest hit by the prevailing drought conditions are currently experienced throughout the country. Our water sources are drying up with Ntabankulu Dam completely dried up and in Matatiele we were forced to use the Mountain Lake as water source which on its own is sustainable as environmentalists already warned us to stop using it. Ntenetyana Dam in Umzimvubu is shrinking daily and the same happening in many water sources in Mbizana. The situation is getting worse as we approach the winter season which is synonymous chilly weather with no rain.

Consequently, National Treasury has also issued MFMA Budget Circular No. 79 encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure the following:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

Honourable Councillors in this regard, a tariff increase of 6 % from 01 July 2016 for water is recommended and this is according to the Consumer Price Index (CPI) as projected by the National Treasury.

Furthermore, a tariff increase of 6% for sanitation services from 01 July 2016 is also recommended and this is based on the input cost assumptions related to water.

We will also be granting 6 kilo-ℓitre water each month free of charge to all qualifying residents in the district.

Somlomo webhunga obekekileyo, we have received R8 million for Energy Efficiency and it has increase from last year's R6 million. Demand Side Management Grant, which is aimed at providing subsidies to municipalities to implement Energy Efficiency and Demand Side Management initiatives within municipal infrastructure, in order to reduce electricity consumption and improve energy efficiency.

Meanwhile, the budgeted allocation for employee related costs for the 2016/17 financial year totals R223 million, and that is 43.28% of the total operating expenditure and as the Council we should be concerned with the ever increasing employee costs as we continue to exceeded the acceptable personnel costs which must be between 25-40%.

Deputy Executive Mayor, water and sanitation projects have received the highest allocation of R1.3 billion in 2016/17 in order to fastrack the provision of services to communities

On the other side, Deputy Executive Mayor we are also allocating an amount of R20 million for 2016/17 financial year to the Alfred Nzo Development Agency (ANDA) to continue driving economic growth and development in the district.

Honourable Councillors, we have allocated R38 million for maintenance and repairs of our water and sanitation infrastructure to respond to an ageing infrastructure demands and maintenance.

The Department of Public Works has increased allocation for implementation of Expanded Public Works Programme (EPWP) from R4.8 million to R6 million for 2016/2017 fiscal year as per Division of Revenue Act (DORA) allocation.

Mr Speaker, it is with great pleasure for me to address this Council, communities and various stakeholders on the sitting of this important meeting of tabling of the final Integrated Development Plan and Budget for 2016/17 financial year of the adopted ANDM IDP 5 Year Strategic document 2012-17, as guided by Chapter 5 Section 25 of the Municipal Systems Act, of 2000, as amended.

As mandated by the said legislation through Section 27 of the same Act, the municipality in consultation with all its local municipalities drafted and adopted the IDP Framework Plan that has guided the process of developing this plan.

Chairperson and the Council, I therefore recommend that:

The Council adopts the final IDP, budget and its related policies in respect of the 2016/2017, in line with section 24 of the Municipal Finance Management Act, (Act 56 of 2003) as presented to the Council as follows:

Total Operating Expenditure	R 681 643 023
Total Capital Expenditure	R1 461 393 752
Total Operating Budget	R2 143 036 775
Total Operating Revenue	R2 143 036 920
Surplus	R (145)

- The Council, acting in terms of section 74(a) of the Local Government: Municipal Systems Act (Act 32 of 2000 as amended) adopts with effect from 01 July 2016 the tariffs for the supply of water, the tariffs for sanitation services and all other tariffs as entailed in the Tariff Policy,
- Furthermore in terms of section 24(c)(v)of the MFMA the following policies need to be approved by the council:
  - Supply Chain Management
  - Fleet Management
  - Fixed Asset Management
  - Budget and Adjustments Policy
  - Cash and Investment
  - Credit Control and Debt Management Policy
  - Petty Cash
- That Council approves the service level standards that forms part of the 2016/17 tabled MTREF budget documentation as per Circular 75 of the MFMA
- In our attempt to speed up service provision to our people more personnel is needed and in this regard I present to this Council the 2016/2017 Organisational Structure to be adopted as the vehicle to implement the programme of action as presented to this house today.

- I further recommend to the Council to adopt the final Budget for the Alfred Nzo Development Agency for the 2016/17 financial year.

Ndizakuthi ndinike eliBhunga ummongo nengxam yale programme of action ngokupheleleyo xa ndisothula ngokusesikweni intetho yobume besithili kwiBhunga elivulelekileyo elizakuthi likhwetywe nguSomlomo ngomhla we 23 June phaya kwa Ward 5 eMbizana.

I thank you

2.1 Budget Resolutions

On 31 May 2016 a sitting of the Council of Alfred Nzo District Municipality met in the Council Chambers to consider the annual budget and Integrated Development Plan of the municipality for the financial year 2016/17. A Council sitting of 31 May 2016 will further take the following resolutions:

1. In line with section 24 of the Municipal Finance Management Act, (Act 56 of 2003), council resolved to adopt:

    1.1. The annual budget of the municipality for the financial year 2016/17 and the multi-year and single-year capital appropriations as set out in the following tables:

    1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification);

    1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote);

    1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and

    1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding

    1.1.5. Budget Related Policies

    1.1.6. Service Standards

2. The Council meeting, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000 as amended) further recommended noting of the following:

    2.1. the tariffs for the supply of water

    2.2. the tariffs for sanitation services

2. Executive Summary

The application of sound financial management principles for the implementation of the District Municipality's budget is essential and critical to ensure that the district municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The district municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programs so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. This has resulted in partial savings to the district municipality. Key areas where savings were realized were on telephone and internet usage, printing, workshops, traveling and accommodation, and catering.

It is planned that in order to realize the revenue provisions as outlined in the budget, the district municipality needs to embark on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the district municipality needs to undertake various customer care initiatives to ensure that the district municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular's No. 51, 54, 58, 59, 66, 67, 70,72, 74 , 75 and 79 were used to guide the compilation of the 2016/17 MTREF.

The main challenges experienced during the compilation of the 2016/17 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy resulting in a weakened global economic outlook and a pattern of slow growth;
- Downward revision of South Africa's gross domestic product (GDP) forecast for 2016/17; and as well as possible downward rating of SA economic statues;
- Aging and poorly maintained water and sanitation infrastructure;
- The need to reprioritize projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water (due to tariff increase by the Department of Water Affairs), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects; and
- Continued budget provisions being made for unfunded/partially funded mandates (Municipal Health Services).

The following budget principles and guidelines directly informed the compilation of the 2016/17 MTREF:

- The 2015/16 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were used as the upper limits for the new baselines for the 2016/17 annual budget, and as well as MFMA circulars;
- Intermediate service level standards were used to inform the measurable

objectives, targets and backlog eradication goals;

- Tariff increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial unfunded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;
- Going back to basics and reduction of expenditure on nice to have's.

In view of the aforementioned, the following table is a consolidated overview of the proposed 2016/17 Medium-term Revenue and Expenditure Framework:

Table 1.a Consolidated Overview of the 2016/17 MTREF

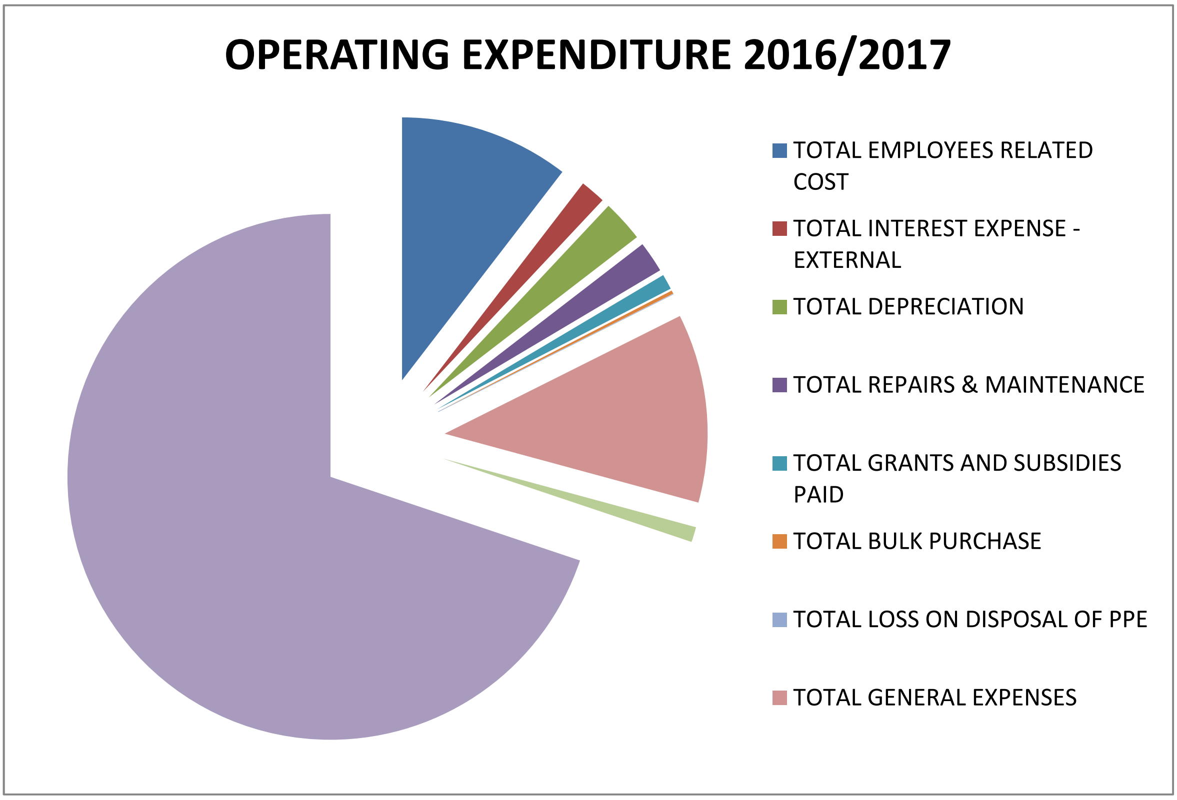
Budget 2016- 2017	2016/17 Medium Term Revenue & Expenditure Framework			
	Draft Approved Budget Year 2016/17	Proposed Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
DESCRIPTIONS	**R**	**R**	**R**	**R**
INTERNAL FUNDS	-38 608 920	-38 608 920	-56 174 091	-58 603 362
GRANTS -NT / PT	-717 381 000	-717 381 000	-800 602 000	-810 345 000
EQUITABLE SHARE	-387 047 000	-387 047 000	-417 686 000	-448 072 000
EXTERNAL LOAN	-1 000 000 000	-1 000 000 000	-	-
OPERATING RESERVES	-	-	-66 877 820	-118 310 310
TOTAL OPERATING REVENUE	**-2 143 036 920**	**-2 143 036 920**	**-1 341 339 911**	**-1 435 330 672**

REVENUE SOURCES 2016 – 2017		
INTERNAL FUNDS	*38 608 920*	*1.8%*
GRANTS -NT / PT	*717 381 000*	*33.5%*
EQUITABLE SHARE	387 047 000	*18%*
EXTERNAL LOAN	1 000 000 000	*46.7%*
Total expenditure	***2 143 036 920***	100%

EXPENDITURE ALLOCATIONS

Table 1 C

OPERATING EXPENDITURE			
DESCRIPTION	**AMOUNT**	**% TO OPEX**	**% TO TOTAL**
TOTAL EMPLOYEES RELATED COST	223 060 548.63	32.72%	10.41%
TOTAL INTEREST EXPENSE - EXTERNAL	36 369 175.11	5.34%	1.70%
TOTAL DEPRECIATION	55 000 000.00	8.07%	2.57%
TOTAL REPAIRS & MAINTENANCE	41 331 900.64	6.06%	1.93%
TOTAL GRANTS AND SUBSIDIES PAID	20 000 000.00	2.93%	0.93%
TOTAL BULK PURCHASE	4 500 000.00	0.66%	0.21%
TOTAL LOSS ON DISPOSAL OF PPE	-	0.00%	0.00%
TOTAL GENERAL EXPENSES	281 381 399.05	41.28%	13.13%
TOTAL CONTR TO/FROM PROVISIONS	20 000 000.00	2.93%	0.93%
CAPITAL PROJECTS	1 461 393 752.00	0.00%	68.19%
	2 143 036 775.43	100.00%	100%



ALFRED NZO DISTRICT MUNICIPALITY PROPOSED DRAFT ANNUAL BUDGET 2016 - 2017 MTREF SUMMARY - DRAFT APPROVED BUDGET					
Budget 2016- 2017	BUDGET YR. 1		BUDGET YR.1	BUDGET YR.2	BUDGET YR.3
	2015/2016		2016/17 Medium Term Revenue & Expenditure Framework		
	ORIGINAL BUDGET	MID-TERM ADJUSTED BUDGET	Proposed Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
DESCRIPTIONS	R	R	R	R	R
REVENUE SOURCES					
INTERNAL FUNDS		-36 961 114	-38 608 920	-56 174 091	-58 603 362
GRANTS -NT / PT	-645 085 000	-606 079 658	-717 381 000	-800 602 000	-810 345 000
EQUITABLE SHARE	-365 517 000	-365 517 000	-387 047 000	-417 686 000	-448 072 000
EXTERNAL LOAN	-78 222 000	-244 179 000	-1 000 000 000	-	-
OPERATING RESERVES	-56 194 030	-66 194 030	-	-111 374 950	-168 216 930
TOTAL OPERATING REVENUE	**-1 145 018 030**	**-1 318 930 802**	**-2 143 036 920**	**-1 385 837 041**	**-1 485 237 292**

ALFRED NZO DISTRICT MUNICIPALITY PROPOSED ANNUAL BUDGET 2016 - 2017 MTREF SUMMARY - ALL DEPARTMENTS						
Budget 2016- 2017	BUDGET YR. 1		BUDGET YR.1	BUDGET YR.1	BUDGET YR.2	BUDGET YR.3
	2015/2016		2016/17 Medium Term Revenue & Expenditure Framework			
	ORIGINAL BUDGET	MID-TERM ADJUSTED BUDGET	Draft Approved Budget Year 2016/17	Proposed Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
DESCRIPTIONS	R	R	R	R	R	R
OPERATING EXPENDITURE						
TOTAL EMPLOYEES RELATED COST	204 322 399	203 689 965	223 512 118	223 060 549	229 835 228	243 395 507
TOTAL INTEREST EXPENSE - EXTERNAL	1 140 000	1 140 000	33 369 175	36 369 175	30 794 430	29 715 461
TOTAL DEPRECIATION	52 500 000	42 500 000	55 000 000	55 000 000	50 000 000	52 950 000
TOTAL REPAIRS & MAINTENANCE	41 181 984	35 717 196	41 031 901	41 331 901	43 894 478	46 484 253
TOTAL GRANTS AND SUBSIDIES PAID	15 000 000	15 000 000	20 000 000	20 000 000	21 240 000	22 493 160
TOTAL BULK PURCHASE	3 500 000	4 154 438	4 500 000	4 500 000	4 779 000	5 060 961
TOTAL LOSS ON DISPOSAL OF PPE	-	-	-	-	-	-
TOTAL GENERAL EXPENSES	162 187 665	206 575 642	248 840 830	281 381 399	269 611 248	266 989 623
TOTAL CONTR TO/FROM PROVISIONS	15 000 000	15 000 000	20 000 000	20 000 000	10 000 000	10 590 000
TOTAL OPERATING EXPENDITURE	**494 832 048**	**523 777 241**	**646 254 023**	**681 643 023**	**643 278 891**	**678 714 122**
OPERATING (SURPLUS) / DEFICIT	**494 832 048**	**523 777 241**	**646 254 023**	**681 643 023**	**643 278 891**	**678 714 122**
CAPITAL PROJECTS	**723 401 033**	**795 152 592**	**1 496 782 752**	**1 461 393 752**	**698 061 002**	**756 616 524**
TOTAL EXPENDITURE	**1 218 233 081**	**1 318 929 833**	**2 143 036 775**	**2 143 036 775**	**1 341 339 893**	**1 435 330 646**
TOTAL BUDGET (SURPLUS) /DEFICIT	**-63**	**-969**	**-145**	**-145**	**-18**	**-27**

Total Revenue (R2. 143billion) has 38.45% as a results of long-term loan application for capital project funding, increase in equitable share of 5.6% and a total grant increase of grants by 15.51% and internal funding has only increase by 4.27%. A part portion of loan will fund the adjustment budget, the overall of 46.66 percent of long term loan is being funded by a long loan during 2016/17 (R 2.143 Billion) budget financial year when compared to the 2015/16 Adjustments Budget (R1. 318billion) MTREF.

R 834 Million of the loan will fund MIG projects that should have been funded by DBSA before and the balance of R132 million is for revenue generating projects and the balance of R 13 million and 21 Million for Document management system and Mbizana Disaster Centre

Total operating expenditure for the 2016/17 financial year has been appropriated at 681 million and translates into a percentage increase of 18.88 per cent from 2015/16 adjusted budget. Operating expenditure continues to increase in the outer year during 2018/19 and a small decrease during 2017/18. A slight operating surplus of R145, R18 and R27 rands has been budgeted for over the MTREF.

It must also be emphasized that due to increased pressures from key departments and a spiraling growth in personnel costs coupled with necessary provisions to be made in lieu of depreciation and repairs and maintenance, year on year growth in the district municipalities budget over the MTREF is less than 5%.

The capital budget of R 1.461 billion for 2016/17 has increased by 54% from the 2015/16 Adjustment Budget. This increase is mainly attributable to an anticipated and projected increase in funds to be received from the loan application processes approved by ANDM council for the MIG frontloaded projects. Also, due to depleting reserves base that has been pre-dominantly utilized in the previous financial years to finance capital expenditure, provision made from internal reserves has drastically been reduced and fully utilized in MIG projects and frontloading funding since the funding from DBSA frontloading was not approved or proponed and as such reserved have been fully a whopped. However, continuing to finance such project need additional funding source and as such ANDM has made an application of loan funding of R1 billion.

The capital program decreases to R698 million in the 2017/18 financial year and then to R 756 million during 2018/19. Also, a portion of the capital budget will be funded from borrowing during 2016/17 with anticipated borrowings of R1 billion coming from the MIG front loading, and from revenue generating projects including implementation of revenue enhancement strategy. In terms of GRAP format Capital Grants receivable are included in the Operating Budget. Capital Expenditure are not included in Operating Budget.

Operating expenditure is the day to day management items of the Municipality, i.e.: Salaries and Wages, Repairs and Maintenance, Debt Servicing, Depreciation on Assets, Insurance, Electricity, Telephone, Subsistence and Travelling Allowances, Fuel etc. The total budget amounts to R681 643 023***.*** Table 1 hereunder summarizes the budget per department. General Managers must manage their own budgets consulting with the Chairpersons of the Standing Committees and the Standing Committees where necessary. Allocations per line item are done by the departments themselves, as long as they don't exceed the amounts allocated per Table

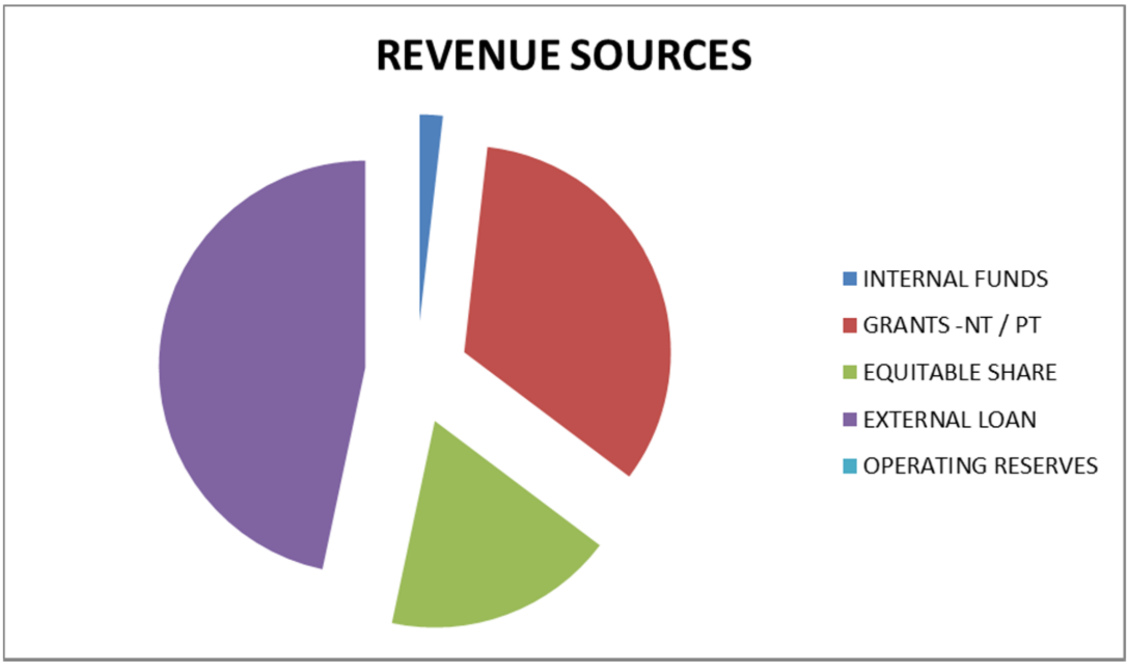
1.Table 1 which is Consolidated Overview of the 2016/17 Medium Term Revenue Expenditure Forecast.

3. Operating Revenue Framework

Table 2 Summary of revenue classified by main revenue source

REVENUE SOURCES 2016/2017		
DESCRIPTION	**AMOUNT**	**%**
INTERNAL FUNDS	-38 608 920	**1.80%**
GRANTS -NT / PT	-717 381 000	**33.47%**
EQUITABLE SHARE	-387 047 000	**18.06%**
EXTERNAL LOAN	-1 000 000 000	**46.66%**
OPERATING RESERVES	-	**0.00%**
TOTAL OPERATING REVENUE	**-2 143 036 920**	**100.00%**

Table2



Implementing a revenue enhancement turnaround strategy is the only plan to be implemented to achieve better revenue outcomes, by critically reviewing the current revenue management business models and processes being applied within the Afraid Nzo District Municipality.

To effectively deal with the current challenges, ANDM must plan and implement effective and integrated revenue enhancement strategies. To improve on the current business model it is important to identify all the critical elements that currently affect municipal revenue performance.

This review process will provide a sound platform for effective planning. The need for an integrated approach should not be taken lightly. Isolated projects that focus on symptoms like debt and access to services, rather than root cause further compound the current crisis.

For the district municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the district municipality and continued economic development;
- Efficient revenue management, which aims to ensure approximately 60% per cent of annual collection rate for key service charges;
- Achievement of full cost recovery of specific user charges especially in relation to trading services (water and sanitation);
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- Increase ability to extend new services and recover costs;

3.1 Conventional Water Meter & Prepaid Water Meter Maintenance

To ensure that the prepaid water meters installed are maintained and kept in working order, the maintenance of these meters will be critical, in future we expect to see an increase in water meter maintenance. The maintenance process required that the correct procedures are followed to ensure that should the Auditor General (AG) require any information, all will be available. These procedures included: **-** Logging on the maintenance issue, issuing of a Works Order, recording the action taken by the visiting plumbers, this could include: Possible materials used; the labelling and storage of each meter being removed; recording of the prepaid meter number replaced; completion of the warranty form if required, register GPS Coordinates; register Time and Date of action, pairing of User Interface units of consumers.

Continued installation of water meters to all consumers so as to recover the related costs;

- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the district municipality.

The following table is a summary of the 2016/17 MTREF (classified by main revenue source):

DC44 Alfred Nzo - Table A1 Consolidated Budget Summary

Description	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Financial Performance										
Property rates	–	–	–	–	–	–	–	–	–	–
Service charges	13 720	15 363	18 777	34 159	23 059	23 059	–	28 509	38 931	41 228
Investment revenue	12 030	16 497	27 160	25 000	12 000	12 000	–	8 000	15 000	15 000
Transfers recognised - operational	744 425	736 736	374 159	409 733	370 728	370 728	–	531 431	593 507	575 323
Other own revenue	1 725	3 840	3 346	148 472	225 969	225 969	–	1 002 100	2 234	20 375
Total Revenue (excluding capital transfers and contributions)	771 900	772 436	423 441	617 364	631 756	631 756	–	1 570 040	649 672	651 926
Employee costs	116 001	151 328	189 602	195 322	204 489	204 489	–	213 767	219 965	232 943
Remuneration of councillors	6 983	7 722	8 626	9 001	9 001	9 001	–	15 059	15 853	16 788
Depreciation & asset impairment	49 178	51 887	51 430	52 500	42 500	42 500	–	55 000	50 000	52 950
Finance charges	–	2 175	1 641	1 140	1 140	1 140	–	33 369	27 608	26 341
Materials and bulk purchases	1 520	16 037	33 189	44 682	39 881	39 881	–	45 832	48 673	51 545
Transfers and grants	–	137 448	79 492	15 000	17 000	17 000	–	20 000	21 240	22 493
Other expenditure	425 647	152 629	167 218	177 188	283 059	283 059	–	295 616	273 629	271 244
Total Expenditure	599 329	519 225	531 198	494 832	597 070	597 070	–	678 643	656 968	674 305
Surplus/(Deficit)	172 571	253 211	(107 757)	122 532	34 686	34 686	–	891 397	(7 296)	(22 379)
Transfers recognised - capital	–	–	445 782	600 873	600 526	600 526	–	572 997	624 781	683
Contributions recognised - capital & contributed assets	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	172 571	253 211	338 025	723 405	635 212	635 212	–	1 464 394	617 485	(21 696)
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	172 571	253 211	338 025	723 405	635 212	635 212	–	1 464 394	617 485	(21 696)
Capital expenditure & funds sources										

Capital expenditure	198 520	296 156	508 010	723 401	635 212	635 212	–	1 496 783	742 558	806 523
Transfers recognised - capital	198 520	295 801	476 583	611 078	615 372	615 372	–	1 496 783	742 558	806 523
Public contributions & donations	–	–	–	–	19 840	19 840	–	–	–	–
Borrowing	–	–	–	78 917	–	–	–	–	–	–
Internally generated funds	–	355	31 427	33 406	–	–	–	–	–	–
Total sources of capital funds	198 520	296 156	508 010	723 401	635 212	635 212	–	1 496 783	742 558	806 523
Financial position										
Total current assets	269 059	285 420	198 045	536 257	346 987	346 987	–	60 138	82 294	102 236
Total non current assets	1 687 871	1 900 833	2 393 622	2 953 541	20 588	20 588	–	2 859 369	2 911 456	3 280 565
Total current liabilities	145 337	128 562	202 461	14 277	–	–	–	200 005	667 192	479 931
Total non current liabilities	31 060	34 859	28 349	331 060	–	–	–	1 005 057	9 608	18 254
Community wealth/Equity	1 780 533	2 022 832	2 360 857	3 144 461	367 575	367 575	–	1 714 445	2 316 951	2 884 616
Cash flows										
Net cash from (used) operating	177 095	1 399 956	1 302 681	184 428	913 091	913 091	913 091	571 783	802 919	870 446
Net cash from (used) investing	(80 402)	507 707	580 609	(600 869)	(600 873)	(600 873)	(600 873)	(1 496 783)	(742 558)	(806 523)
Net cash from (used) financing	–	–	–	–	–	–	–	967 767	(34 002)	(35 000)
Cash/cash equivalents at the year end	226 115	2 110 588	2 017 892	(416 441)	312 218	312 218	312 218	42 767	69 126	98 049
Cash backing/surplus reconciliation										
Cash and investments available	252 877	258 530	162 890	512 470	344 542	344 542	–	163 193	191 960	177 891
Application of cash and investments	107 277	25 953	2 396	(24 115)	(42 068)	(42 068)	–	174 110	184 557	195 630
Balance - surplus (shortfall)	145 601	232 577	160 494	536 585	386 610	386 610	–	(10 917)	7 404	(17 739)
Asset management										
Asset register summary (WDV)	1 667 159	1 900 832	2 393 623	1 964 609	3 199 353	3 199 353	2 738 943	2 738 943	2 788 622	3 200 723
Depreciation & asset impairment	49 178	51 887	51 430	52 500	42 500	42 500	55 000	55 000	50 000	52 950
Renewal of Existing Assets	–	–	–	–	–	–	–	–	–	–
Repairs and Maintenance	–	13 699	29 111	–	–	–	–	–	–	–
Free services										
Cost of Free Basic Services provided	–	–	–	–	–	–	–	–	–	–
Revenue cost of free services provided	–	–	–	–	–	–	–	–	–	–
Households below minimum service level										
Water:	–	–	–	–	–	–	–	–	–	–
Sanitation/sewerage:	–	–	–	–	–	–	–	–	–	–
Energy:	–	–	–	–	–	–	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–	–	–

Only revenue generated from water and sanitation service charges forms a significant percentage of own generated revenue. Such revenue totals R22.2 million (2015/16), R27.5 million (2016/17) and R37.8million (2017/18) over the MTREF. Currently, the district municipality is performing a water meter audit, replacement and installation of new water and prepaid water meters exercise from source to tap for all consumers. This project is expected to be completed by June 2017. Linked to this project is a data cleansing project. Once the meter audit is completed, all faulty meters will either be fixed or replaced as well as installation of new water meters for all consumers who do not have functioning water meters.

Included on R 1 Billion loan is amount of R40 Million to finance prepaid water meters purchases and installations costs. Likewise with all other rural district municipalities, our District municipality significantly relies on grants to finance both its operations and capital expenditure without which it could cease to exist. The implementation of revenue enhancement strategy is imperative in ensuring increase in ANDM's internal revenue.

Included in programs budgeted for that continue to be unfunded mandates is Municipal Health Services. The agreement signed between the district municipality and the relevant department is silent on the actual amount to be received for the 2016/17 financial year. Until the district municipality realizes the portion of grant to finance expenditure that goes with this function, continuing to finance it internally will remain an unfunded mandate. As a result of this anomaly and as required by the Municipal Budget and Reporting Regulations, the 2016/17 budget has not accounted for any grant to be received in lieu of this function as it has not been gazetted in the Provincial Gazette.

Operating grants and transfers totals R645 million in the 2015/16 financial year and increases to R717 million in 2016/17 and steadily increases again to R800 million in 2017/18 and R810 million in 2018/2019 respectively.The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts

	CURRENT YEAR 2015/16	BUDGET YR.1	BUDGET YR.2	BUDGET YR.3
		2015/16 Medium Term Revenue & Expenditure		
	MID-TERM ADJUSTE D BUDGET	Proposed Budget 2016/17	Budget Year +1 2017/18	Budget Year +1 2018/19
FMG GRANT	-1 325 000	-1 460 000	-1 795 000	-2 050 000
FIRE & EMERGENCY	0	0	0	0
MSIG	-930 000	-1 790 000	-2 425 000	-761 000
EPWP	-4 853 000	-6 006 000	-	-
WSOG	-10 000 000	0	0	0
TRANSPORT	-2 100 000	-2 157 000	-2 299 000	-2 440 000
WSOG	-10 000 000	-101 171 000	-151 741 000	-105 000 000
MUNICIPAL HEALTH	-2 500 000	0	0	0
ISDG	-3 000 000	-5 000 000	-4 561 000	-5 000 000
ENERGY EFFIC & DEMAND SIDE MAN	-6 000 000	-8 000 000	-6 000 000	-5 000 000
DBSA GRANT FUNDING	-3 000 000	0	0	0
LG SETA – GRANT	-500 000	-10 000 000	-7 000 000	-7 000 000
	-645 085 774	**-717 381 000**	**- 800 602 000**	**- 810 345 000**

4. Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition, National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective. As a district municipality, plans are that once the water meter audit exercise is completed as well as installation of water meters, a tariff determination exercise will be performed for full implementation during the 2017/18 financial year.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of 6 per cent from 1 July 2016 for water is proposed. This is based primary based on the CPI inflation rate of 6.6 per cent as projected by the National Treasury. In addition once credible systems are put in place it is expected that 6 kℓ water per 30-day period will again be granted free of charge to all qualifying residents.

4.1. Sanitation and Impact of Tariff Increases

A tariff increase of 6 per cent for sanitation from 1 July 2016 is also proposed. This is based on the input cost assumptions related to water. The proposed tariff increases remain the same as those proposed in the current year. Due to prevailing economic conditions, increasing these beyond the current inflation rate would impact negatively on consumers ability to service their debts.

5.2 Operating Expenditure Framework

The District Municipality's expenditure framework for the 2016/17 budget and MTREF is informed by the following:

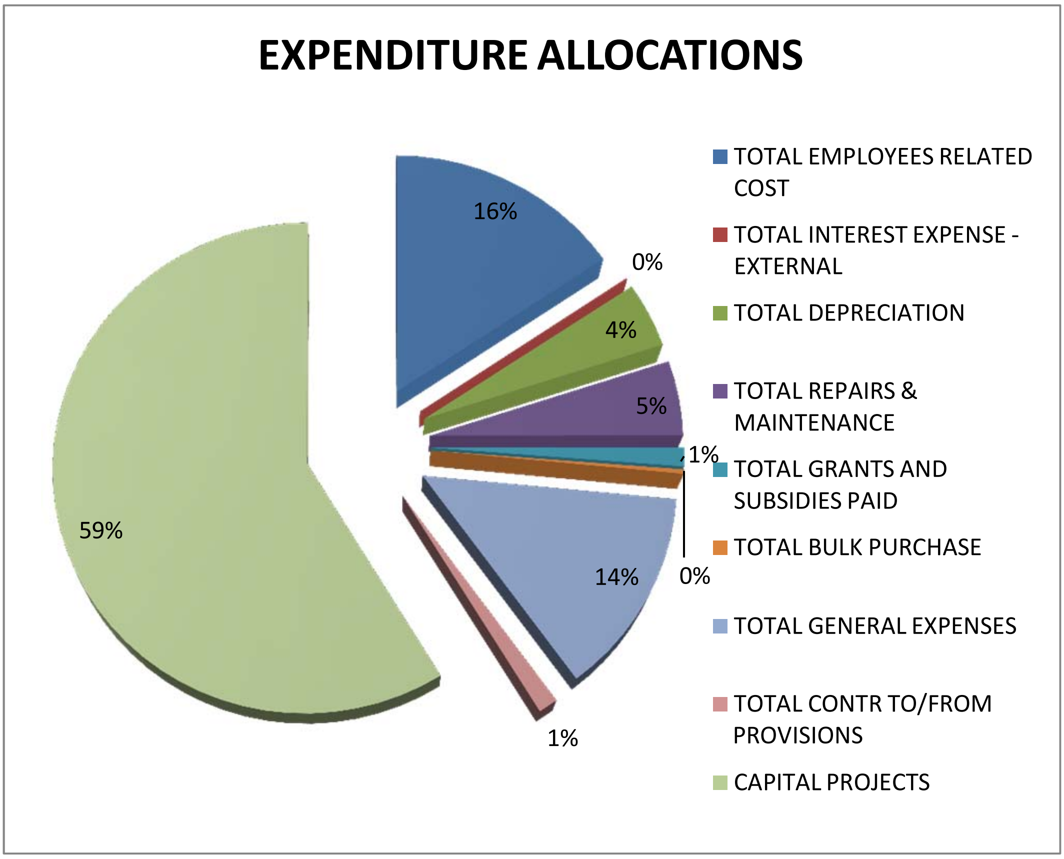
- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Ensuring that the district municipality implements the back to basics exercise so as to reduce non-priority spending.

The following table is a high level summary of the 2016/17 budget and MTREF (classified per main type of revenue and operating expenditure):

DC44 Alfred Nzo - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Revenue By Source											
Property rates	2	–	–	–	–	–	–	–	–	–	–
Property rates - penalties & collection charges											
Service charges - electricity revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - water revenue	2	13 720	15 363	16 960	30 700	20 650	20 650	–	28 509	38 931	41 228
Service charges - sanitation revenue	2	–	–	1 816	3 459	2 409	2 409	–	–	–	–
Service charges - refuse revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - other		–									
Rental of facilities and equipment		330	255	184	338	331	331	–	330	363	384
Interest earned - external investments		12 030	16 497	27 160	25 000	12 000	12 000	–	8 000	15 000	15 000
Interest earned - outstanding debtors		–	1 426	–	12 000	200	200	–			
Dividends received		–									
Fines		–									
Licences and permits		–									
Agency services		53	4	31							
Transfers recognised - operational		744 425	736 736	374 159	409 733	370 728	370 728	–	531 431	593 507	575 323
Other revenue	2	1 229	1 528	3 131	136 134	225 438	225 438	–	1 001 770	1 871	19 991
Gains on disposal of PPE		113	627								
Total Revenue (excluding capital transfers and contributions)		771 900	772 436	423 441	617 364	631 756	631 756	–	1 570 040	649 672	651 926
Expenditure By Type	-										
Employee related costs	2	116 001	151 328	189 602	195 322	204 489	204 489	–	213 767	219 965	232 943
Remuneration of councillors		6 983	7 722	8 626	9 001	9 001	9 001	–	15 059	15 853	16 788
Debt impairment	3	3 999	14 014	13 543	15 000	15 000	15 000	–	–	–	–
Depreciation & asset impairment	2	49 178	51 886 504.00	51 430	52 500	42 500	42 500	–	55 000	50 000	52 950
Finance charges		–	2 175	1 641	1 140	1 140	1 140	–	33 369	27 608	26 341
Bulk purchases	2	1 520	2 338	4 078	3 500	4 154	4 154	–	4 500	4 779	5 061
Other materials	8	–	13 699	29 111	41 182	35 726	35 726	–	41 332	43 894	46 484
Contracted services		25 621	49 023	41 100	–	–	–	–	8 500	9 027	9 560
Transfers and grants			137 448	79 492	15 000	17 000	17 000		20 000	21 240	22 493

		–						–			
Other expenditure	4, 5	396 027	89 592	112 238	162 188	268 059	268 059	–	287 116	264 602	261 685
Loss on disposal of PPE				337							
Total Expenditure		599 329	519 224 738.00	531 198	494 832	597 070	597 070	–	678 643	656 968	674 305
Surplus/(Deficit)		172 571	253 211	(107 757)	122 532	34 686	34 686	–	891 397	(7 296)	(22 379)
Transfers recognised - capital		–		445 782	600 873	600 526	600 526	–	572 997	624 781	683
Contributions recognised - capital	6	–	–	–	–	–	–	–	–	–	–
Contributed assets											
Surplus/(Deficit) after capital transfers & contributions		172 571	253 211	338 025	723 405	635 212	635 212	–	1 464 394	617 485	(21 696)
Taxation											
Surplus/(Deficit) after taxation		172 571	253 211	338 025	723 405	635 212	635 212	–	1 464 394	617 485	(21 696)
Attributable to minorities											
Surplus/(Deficit) attributable to municipality		172 571	253 211	338 025	723 405	635 212	635 212	–	1 464 394	617 485	(21 696)
Share of surplus/ (deficit) of associate	7										
Surplus/(Deficit) for the year		172 571	253 211	338 025	723 405	635 212	635 212	–	1 464 394	617 485	(21 696)



The budgeted allocation for employee related costs for the 2016/17 financial year totals R223.1 million, which equals 32 per cent of the total operating expenditure. In terms of the South African Local Government Association (SALGA), salary increases have been factored into this budget at a percentage increase of 6 per cent for the 2016/17 financial year. An annual increase of 6.2 and 5.9 per cent has been included in the two outer years of the MTREF (CPI plus 1%). As part of the District Municipalities cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards.

The cost associated with the remuneration of councilors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the district municipality's budget and a provision of 6 percent has accordingly been made to cushion such costs.

A significant provision has been made in lieu of depreciation expense (R55 million – 2016/17, R50 million – 2017/18 and R52.9 million – 2018/19 respectively). This is in line with the continued capital infrastructure program being implemented by the district municipality on an annual basis. Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. It must also be noted that the implementation of GRAP 17 accounting standard has meant bringing a range of assets

previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

The district municipality has made a provision of R41 million in the 2016/17 budget for repairs and maintenance. Whilst this is not in line with the National Treasury's requirement of 6.35% of the total operating cost, provision to be made from the Total Property, Plant and Equipment (PPE) in line with MFMA circular number 55, considering the current budgetary constraints, the district municipality can only stretch itself this far in order to make the necessary provision due to budgetary constraints, further this will have to be assessed before the final budget is complete as in 2015/16 budget the repairs and maintenance were budgeted at 8 per cent. This is however a significant decrease of R19.1 from the provision made in the current year adjusted budget (R60.2 million). The decrease is as a result of properly accounting for costs incurred on all rural water scheme operators costs that have been transferred to salaries and wages in line with AG's recommendations.

As part of the review of the local government infrastructure grant framework, National Treasury has announced in the 2016 Division of Revenue Bill that the rules in the municipal infrastructure grant (MIG) framework will be amended to allow funds to be used to refurbish and replace infrastructure in the future. This will assist municipalities in the long-run as they do not have sufficient funding to make such provisions from their own budgets.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital).

Bulk purchases are directly informed by the purchase of water from the Department of Water Affairs (DWA). The total provision made in lieu of bulk water purchases during 2016/17 is R4.5 million.

6. Capital expenditure

Table 5 Summary of Capital Expenditure Municipal Vote

DC44 Alfred Nzo - Supporting Table SA35 Consolidated future financial implications of the capital budget

Vote Description	Ref	2016/17 Medium Term Revenue & Expenditure Framework			Forecasts			
R thousand		Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Present value
Capital expenditure	1							
Vote 1 - Executive and Council		2 700	1 612	1 708				
Vote 2 -		–	–	–				
Vote 3 - Planning and Development		72 000	–	–				
Vote 4 - Budget and Treasury Office		4 550	2 797	3 961				
Vote 5 - Technical Services		1 338 593	303 413	321 314				
Vote 6 - Community Services		21 700	1 805	1 911				
Vote 7 - Corporate Services		21 850	10 398	9 953				
Vote 8 -		–	–	–				
Vote 9 -		–	–	–				
Vote 10 -		–	–	–				
Vote 11 -		–	–	–				
Vote 12 -		–	–	–				
Vote 13 -		–	–	–				
Vote 14 -		–	–	–				
Vote 15 -		–	–	–				
List entity summary if applicable								
Total Capital Expenditure		1 461 393	698 061	756 616	–	–	–	–

For 2016/17 a total budget of R1 461 billion has been appropriated for the development of infrastructure which equates to a 93 per cent of the total capital budget of ANDM, the figure above includes R 40 million for the purchase of prepaid water meters and installations cost for specifically assist in the implementation of revenue enhancement project.

Further, the building/extension of municipal offices has been budget for R 135 million, sanitation project for Matatiele R 80 million, MIG projects in Mbizana for R 252 Million, and as well as other MIG projects amounting of R 93.6 Million. LED revenue generating project of R75 Million.

Included in the R1 461 million capital expenditure is an amount of R78.2 million brought into the budget in line with the MIG/DBSA front-loading arrangements and also a total of R367 million has been provided for in lieu of the MIG allocations. Capital projects relating to Regional Bulk Infrastructure total to R143 million.

Whilst it makes sense to finance projects internally, consideration should be made to the extent of internal funds available to finance such projects.

7.1 Cash/cash equivalent position

The Municipality's forecast cash position was discussed as part of the budgeted cash flow statement. A 'positive' cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

7.2 Cash plus investments less application of funds

The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement. The detail reconciliation of the cash backed reserves/surpluses will be provided in the final budget. Attached is the provisional report.

DC44 Alfred Nzo Supporting Table SA10 Funding measurement

Description	MFMA section	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Funding measures	-	-										
Cash/cash equivalents at the year-end - R'000	18(1)b	1	125 086	150 536	73 810	–	2 558 656	2 558 656	2 558 656	–	–	–
Cash + investments at the year-end less applications - R'000	18(1)b	2	118 720	137 909	149 430	499 771	384 707	384 707	384 707	–	–	–
Cash year end/monthly employee/supplier payments	18(1)b	3	5.2	9.5	2.3	–	82.5	82.5	82.5	–	–	–
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	474 732	550 229	359 346	1 084 410	635 212	635 212	635 212	1 497 112	742 921	806 907
Service charge rev % change - macro CPIX target exclusive	18(1)a,(2)	5	N.A.	15.9%	25.0%	49.9%	(38.5%)	(6.0%)	(6.0%)	17.6%	30.6%	(0.1%)
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	23.3%	0.0%	260.9%	0.0%	222.4%	222.4%	222.4%	0.0%	0.0%	0.0%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	29.1%	83.8%	61.8%	43.9%	65.1%	65.1%	65.1%	70.2%	25.7%	25.7%
Capital payments % of capital expenditure	18(1)c;19	8	25.0%	153.9%	0.0%	0.0%	(113.2%)	(113.2%)	(113.2%)	0.0%	0.0%	0.0%
Borrowing receipts % of capital expenditure (excl. transfers)	18(1)c	9	(0.1%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10								0.0%	0.0%	0.0%
Current consumer debtors % change - incr(decr)	18(1)a	11	N.A.	(34.1%)	201.4%	(40.2%)	(53.4%)	0.0%	0.0%	(100.0%)	0.0%	0.0%
Long term receivables % change - incr(decr)	18(1)a	12	N.A.	0.0%	(52.7%)	111.5%	0.0%	0.0%	0.0%	(100.0%)	0.0%	0.0%
R&M % of Property Plant & Equipment	20(1)(vi)	13	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asset renewal % of capital budget	20(1)(vi)	14	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

The reconciliation is intended to be a relatively simple methodology for understanding the budgeted amount of cash and investments available with any planned or required applications to be made. This has been extensively discussed above.

7.3 Monthly average payments covered by cash or cash equivalents/ Cash flow Statement

DC44 Alfred Nzo - Supporting Table SA30 Consolidated budgeted monthly cash flow

MONTHLY CASH FLOWS	Budget Year 2016/17												Medium Term Revenue and Expenditure Framework		
R thousand	July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Cash Receipts By Source													1		
Property rates												–			
Property rates - penalties & collection charges												–			
Service charges - electricity revenue												–			
Service charges - water revenue	2 146	2 146	2 146	2 146	2 146	2 146	2 146	2 146	2 146	2 146	2 146	2 146	25 750	36 001	38 125
Service charges - sanitation revenue	230	230	230	230	230	230	230	230	230	230	230	230	2 759	2 930	3 103
Service charges - refuse revenue												–			
Service charges - other												–			
Rental of facilities and equipment	27	27	27	27	27	27	27	27	27	27	27	28	330	363	384
Interest earned - external investments	667	667	667	667	667	667	667	667	667	667	667	667	8 000	15 000	15 000
Interest earned - outstanding debtors												–			
Dividends received												–			
Fines												–			
Licences and permits												–			
Agency services												–			
Transfer receipts - operational	44 286	44 286	44 286	44 286	44 286	44 286	44 286	44 286	44 286	44 286	44 286	44 286	531 431	593 507	575 323
Other revenue	175	175	175	175	175	175	175	175	175	175	175	175	2 099	113 617	170 591
Cash Receipts by Source	47 531	47 531	47 531	47 531	47 531	47 531	47 531	47 531	47 531	47 531	47 531	47 531	570 369	761 418	802 526
Other Cash Flows by Source															
Transfer receipts - capital	131 083	131 083	131 083	131 083	131 083	131 083	131 083	131 083	131 083	131 083	131 083	(869 246)	572 668	624 781	683 094
Contributions recognised - capital & Contributed assets												–			
Proceeds on disposal of PPE												–			
Short term loans												–			
Borrowing long term/refinancing	83 333	83 333	83 333	83 333	83 333	83 333	83 333	83 333	83 333	83 333	83 333	83 333	1 000 000		
Increase (decrease) in consumer deposits												–			
Decrease (Increase) in non-current debtors												–			
Decrease (increase) other non-current receivables												–			
Decrease (increase) in non-current investments												–			
Total Cash Receipts by Source	261 947	261 947	261 947	261 947	261 947	261 947	261 947	261 947	261 947	261 947	261 947	(738 381)	2 143 037	1 386 199	1 485 620
Cash Payments by Type															
Employee related costs	17 840	17 840	17 840	17 840	17 840	17 840	17 840	17 840	17 840	17 840	17 840	17 840	214 079	213 597	226 199
Remuneration of councillors	786	786	786	786	786	786	786	786	786	786	786	786	9 433	10 018	10 609
Finance charges	2 781	2 781	2 781	2 781	2 781	2 781	2 781	2 781	2 781	2 781	2 781	2 781	33 369	35 222	37 094
Bulk purchases - Electricity												–			
Bulk purchases - Water & Sewer	375	375	375	375	375	375	375	375	375	375	375	375	4 500	4 779	5 061
Other materials	3 419	3 419	3 419	3 419	3 419	3 419	3 419	3 419	3 419	3 419	3 419	3 419	41 032	43 576	46 147
Contracted services												–			
Transfers and grants - other municipalities												–			
Transfers and grants - other	1 667	1 667	1 667	1 667	1 667	1 667	1 667	1 667	1 667	1 667	1 667	1 667	20 000	21 240	22 493
Other expenditure	20 737	20 737	20 737	20 737	20 737	20 737	20 737	20 737	20 737	20 737	20 737	20 737	248 841	254 848	267 571
Cash Payments by Type	47 604	47 604	47 604	47 604	47 604	47 604	47 604	47 604	47 604	47 604	47 604	47 605	571 254	583 280	615 174
Other Cash Flows/Payments by Type															
Capital assets	124 732	124 732	124 732	124 732	124 732	124 732	124 732	124 732	124 732	124 732	124 732	124 732	1 496 783	742 558	806 523
Repayment of borrowing	2 686	2 686	2 686	2 686	2 686	2 686	2 686	2 686	2 686	2 686	2 686	2 686	32 233	34 002	35 000
Other Cash Flows/Payments												–			
Total Cash Payments by Type	175 022	175 022	175 022	175 022	175 022	175 022	175 022	175 022	175 022	175 022	175 022	175 022	2 100 270	1 359 840	1 456 697
NET INCREASE/(DECREASE) IN CASH HELD	86 925	86 925	86 925	86 925	86 925	86 925	86 925	86 925	86 925	86 925	86 925	(913 404)	42 767	26 359	28 923
Cash/cash equivalents at the month/year begin:		86 925	173 849	260 774	347 699	434 623	521 548	608 472	695 397	782 322	869 246	956 171	–	42 767	69 126
Cash/cash equivalents at the month/year end:	86 925	173 849	260 774	347 699	434 623	521 548	608 472	695 397	782 322	869 246	956 171	42 767	42 767	69 126	98 049

The purpose of this measure is to understand the level of financial risk should the municipality be under stress from a collection and cash in-flow perspective. It is especially important to consider the position should the municipality be faced with an expected disaster that threatens revenue collection such as water or service charges boycotts. As part of the 2016/2017 MTREF the municipalities improving cash position causes the ratio to move upwards and then increase slightly for outer years. As indicated above the Municipality aims to archive at least one month's cash coverage in the medium term, and then gradually move towards two months coverage. This measure will have to be carefully monitored going forward.

The repayment of R 120 million new loan from DBSA is illustrated above to be R32,233 million, which only cover the new loan from DBSA which we still under application. ANDM cash flow is positive and the municipality will be able to repay fully the loan. The balance of R 42.7 million is attributed to non-cash items, the two outer years analyses of cash flow shows an increase in cash balance which is R 59 million for 2017/18 and R 98 million for 2018/19

Further the municipality will repay the balance of R880 million (R1 billion less R120 million) for loan as from 2017/18 and 2018/19 up the loan is completed. The repayment projections have been calculated and included in the final budget.

7.4 Surplus/deficit excluding depreciation offsets

The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An 'adjusted' surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets. Municipalities need to assess the result of this calculation taking into consideration its own circumstances and levels of backlogs. If the outcome is a deficit, it may indicate that rates and service charges are insufficient to ensure that the community is making a sufficient contribution toward the economic benefits they are consuming over the medium term.

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective and the first two measures in the table are therefore critical.

7.5 Debt impairment expense as a percentage of billable revenue.

This factor measures whether the provision for debt impairment is being adequately funded and is based on the underlying assumption that the provision for debt impairment (doubtful and bad debts) has to be increased to offset under-collection of billed revenues. Considering the debt incentive scheme and the municipality's revenue management strategy's objective to collect outstanding debtors of 90 days, the provision is well within the accepted leading practice.

7.6 Capital payments percentage of capital expenditure

The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position. It can be seen that a 100 per cent timing discount has been factored into the cash position forecasted over the entire financial year. The municipality aims to keep this as low as possible through strict compliance with the legislative requirement that debtors be paid within 30 days.

7.7 Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)

The purpose of this measurement is to determine the proportion of a municipality's 'own-funded' capital expenditure budget that is being funded from borrowed funds to confirm MFMA compliance. Externally funded expenditure (by transfers/grants and contributions) has been be excluded.

Transfers/grants revenue as a percentage of Government transfers/grants available

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 per cent could indicate that not all grants as contained in the Division of Revenue Act (Dora) have been budgeted for. The Municipality has budgeted for all transfers.

7.8 Consumer debtors change (Current and Non-current)

The purpose of these measures is to ascertain whether budgeted reductions in outstanding debtors are realistic. There are 2 measures shown for this factor; the change in current debtors and the change in long term receivables, both from the Budgeted Financial Position Both measures show a relatively stable trend in line with the Municipality's policy of settling debtor's accounts within 30 days.

7.9 Repairs and maintenance expenditure level

This measure must be considered important within the context of the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected.

7.10 Asset renewal/rehabilitation expenditure level

This measure has a similar objective to aforementioned objective relating to repairs and maintenance. A requirement of the detailed capital budget (since MFMA Circular 28 which was issued in December 2005) is to categorise each capital project as a new asset or a renewal/rehabilitation project. The objective is to summarise and understand the proportion of budgets being provided for new assets and also asset sustainability.

Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash: o What are the predicted cash and investments that are available at the end of the budget year? • How are those funds used? • What is the net funds available or funding shortfall? A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be 'funded'. Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the

consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

8 Municipal manager's quality certificate

I …………………………………, municipal manager of Alfred Nzo District Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name ____

Municipal manager of Alfred Nzo District Municipality (DC44)

Signature____

Date____